

Operational Review Task Force

Banking Services

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Task Force Members

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- Industry: Vanessa Hampton, Vice President, BB&T
- Local Government: Dean Lynch, Director of Intergovernmental Affairs, Virginia Association of Counties
- Agency Staff: Manju Ganeriwala, Treasurer of Virginia

Findings

- Total spending for Treasury banking services was \$3.8mm in FY10, down from a peak of \$4.4mm in FY08 and essentially the same as in FY06 (Working Paper 1, Exhibit A)
- Task Force focused on disbursement methods as a cost savings area
- Electronic Payments are more efficient than checks
 - Treasury incremental cost of producing a mailed check is approximately \$0.73 per check
 - Comparable cost for electronic payments is less than \$0.10
- Great efforts have already been made to reduce check writing
 - Paper documents (include earnings notices) have declined from 10.9mm in FY03 to 3.3mm in FY10 (Working Paper 1, Exhibit B)
 - 83% of all disbursements were made electronically in FY10

Findings

Continued

- **Most large disbursing agencies are at or over 90% electronic**
(Working Paper 1, Exhibit C)
 - Statewide Payroll (DOA processed) - 96%
 - Virginia Retirement System (VRS) - 93%
 - Department of Social Services (DSS) - 91%
 - Virginia Employment Commission (VEC) - 99%
- **Greatest opportunities to further reduce checks is with general warrants and tax refunds** (Working Paper 1, Exhibit C)
 - General Warrants issued 2.1mm payments, 47% electronic, up from 44% in FY09
 - In FY10 over 660,000 checks were converted to charge card payments through the Small Purchase Charge Card program (SPCC). FY09 – 648,000; FY08 657,000
 - Tax Refunds issued 2.8mm payments, 48% electronic, up from 43% in FY09
- **General Warrants - Hurdles to increasing electronic payments**
 - General Warrants require a registration of the trading partner to accept electronic payments
 - Payees need to be educated on the access of remittance data via DOA's REDI system to facilitate the posting process
 - DOA has limited resources to oversee enrollment and security
 - DOA is targeting payees receiving more than 300 payments annually
 - Many payments are one time which are not efficient to set up on the system

Findings

Continued

- Hurdles to increasing electronic payments – Tax Refunds
 - 98% of check refunds are to individuals
 - Many individuals elect to receive a check as the means of the refund
 - Some individuals do not have bank accounts or they are reluctant to provide account information to the State
 - Refunds are one-time transactions which are not conducive to the pay card program
 - Tax preparers are significantly underutilizing electronic refunds as compared to the general public

Findings

Continued

■ Receipts (Working Paper 2)

- Although disbursements are where the state can most directly control cost, the Task Force also looked at receipts
- Approach is to make it as convenient as possible for payees to pay the state in order to collect dollars most expeditiously

Receipt methods include

- Paper checks
 - Branch deposits
 - High volume of checks bundled into a cash letter
- Image technology
- Lockboxes
- Electronic checks (ACH transactions)
 - Pull - where the state is authorized to pull funds from payee accounts
 - Push - where payees initiate payments to the state through a bill payment service
- Credit cards
 - New contract will save the state \$2.6mm per year (Working Paper 1, Exhibit D)
 - Contract has been extended to local governments for their use providing for substantial savings
- Payments can be made
 - In person
 - Mailed
 - Over the phone
 - Via the internet

Opportunities

■ General Warrants

- Work with Department of General Services to incorporate electronic payment as the payment vehicle in contracts
- Provide for simultaneous registration for EDI when suppliers register for the state's eVA Procurement system
- Further enforcement of already existing provisions for recipients to accept electronic payments
- Increase the use of the purchase card program by continuing to increase the utilization threshold resulting in agencies being assessed a fee if the threshold is not met
- Continue to explore if outsourcing the EDI process is viable
 - May save cost and accelerate the registration of payees increasing participation
 - Potentially would eliminate the risk of maintaining sensitive data

Opportunities

Continued

■ Tax Refunds

- Continue and increase promotional and educational efforts to encourage electronic refunds and call attention to the extended time it takes to receive a check vs. an electronic payment
- Analyze why tax preparers are underutilizing electronic refunds as compared to the general public
- Look at monetary incentives to encourage electronic refunds

Opportunities

Continued

- Work with major disbursing agencies to further
reduce checks (Working Paper 3)
 - Remind agencies of their authority to mandate direct deposit of payroll
 - Continue to encourage the use of direct deposit especially with new retirees. Determine if the pay card is a viable option
 - Continue to drive more payments to electronic means through either direct deposit or pay card

Working Papers and Appendix

- Task Force Working Paper 1
 - Review of Use of Banking Services
- Task Force Working Paper 2
 - Review of Receipts
- Task Force Working Paper 3
 - Agency Specific Practices

- Appendix
 - Reform Commission Consolidation and Shared Services Committee on
E-Commerce Disbursements (Prepared by DOA)